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Presenter: Richard Danzig, Secretary of the Navy

(Also participating were Rear Adm. Craig Quigley, deputy secretary of Defense for public affairs; Gen. James L. Jones, commandant of the Marine Corps; Adm. Vernon Clark, chief of Naval Operations; Arthur Money, assistant secretary of Defense for Command, Control, Communications and Intelligence; Joseph R. Cipriano, program executive officer (Information Technology); Dan Porter, Department of the Navy chief information officer; and Rear Adm. Richard M. Mayo, director, Space, Information Warfare, Command and Control Directorate, Office of the Chief of Naval Operations.)

Quigley: Good afternoon, ladies and gentlemen. We have a variety of individuals with us this afternoon to talk about the Navy-Marine Corps Intranet. And the first of them to frame the issue for us is Secretary of the Navy Richard Danzig.

Mr. Secretary?

Danzig: Well, this is an exciting and rewarding day for us. We're going to be announcing at 5 this evening the contract award for the Navy and Marine Corps Intranet. This is a system that will give us a complete connectivity and linkage throughout the Navy and Marine Corps of our information systems and replace some 200 separate nets with a single integrated net.

We thought we would explain it to you now, at this point, and then you'll be able to have background information. We can answer questions about it now, and we'll announce the contractor, as is the usual arrangement, after the markets have closed at 5 today.

I might mention that this is being carried on defenselink.mil as live stream video (sic) [audio]. It seems to me emblematic of this information age we're entering.

Central in this is the vital support from the secretary of Defense, the deputy secretary of Defense and the assistant secretary of Defense for communications, Art Money. He is also the Department of Defense chief information officer, and, accordingly, it seemed as though the right first word on this belonged to Mr. Money.

So, Art.

Money: This is indeed a pivotal moment, I think, in the Department of Defense across the board. This is the most revolutionary idea so far in reengineering how we do business. There's been a lot of hurdles that need to be overcome to get to this point.

From my standpoint, the major issues were to ensure interoperability across the entire Department of Defense, to ensure the information carried not only on this intranet but others has assurance -- it has integrity and confidentiality and is available and has non-repudiation, at least in the technical sense, and it's also authenticated. This system clearly meets that.

But probably the most important part here is that's a new high-water mark, if you will, on where we're going in services, how we intend to provide new technology to the department.

My other obligation not only to the department but back to Congress is in fact to certify that this system overall meets the Clinger-Cohen Act. And in essence what that means is, it's sufficient and it's effective. And in fact, this is where we are today, and I signed off that compliance a few weeks ago.

There's a lot of work yet to be done, but this is clearly the first step on how to get there, so I'm very thrilled to here, along with Richard Danzig and the CNO and the commandant of the Marine Corps.

Danzig: Thank you.

Money: You bet.

Danzig: Our thought was to take a couple of minutes and try and explain why I, as secretary of the Navy, and the commandant of the Marine Corps, Jim Jones, and the chief of Naval Operations, Vern Clark, especially value this as managers and what its implications are. And then we'll happily take questions about that. And then we'll ask a panel of technical experts to come on and answer such subtle and arcane questions as you may have with respect to this.

This is, from our standpoint, a wonderful and fundamental achievement. I value it immensely, as secretary of the Navy, and feel that just an intense sense of gratitude to the people who made this work, both within the Navy and in the Office of the Secretary of Defense.

This is, from our standpoint, a wonderful and fundamental achievement. I value it immensely, as secretary of the Navy. And feel just an intense sense of gratitude to the people who made this work, both within the Navy and in the Office of the Secretary of Defense.

You can look at this as an economic proposition. And the first thing that strikes anyone is that this is big. The Department of the Navy is a $90 billion organization. We employ about 900,000 people, when you take a count of both our uniform sailors and Marines, our reservists, our

civilians. We're out there in the world. There're 88,000 sailors and Marines all over the world, outside of the United States at even given moment. We have over a hundred in ships that are operating abroad at this moment.

Keeping that organization connected is an extremely expensive proposition. We estimate that in our different operations now, we are spending about $1.6 billion a year on information services and connectivity. But we are spending it, until now, in piecemeal kinds of ways, as individual organizations create their own networks, man them with their own people, supply their own hardware, having bought it individually and bought software as well, maintain web sites and the like.

The central perception, initially, behind the Navy and Marine Corps Intranet is that we could achieve extraordinary economies of scale by buying in one central entity, in one central way, managing this centrally. And, indeed, the contract that we'll award at the end of the day is at price levels like $1.2 billion a year, very dramatic kinds of savings.

When we looked at it closely, we realized as well that we could achieve very substantial gains in terms of the security of the net by, instead of operating a large number of subsidiary systems, operating one central system where the system administrators could see everybody who came on the net, unusual patterns of usage and the like, and where we could afford to move towards public key infrastructure and other kinds of security and cryptology steps that a larger system enables us to maintain.

So we realized we had a system that would be both more economic and more secure.

We also found that we could run, by a central contractual mechanism here, a system that would be more reliable and would be more consistently connected in these ways. And these advantages were enormously attractive to us in moving to an Intranet.

But I'm deeply impressed by two other advantages that are somewhat more powerful even and, in the end, as a manager of this system, make me a very enthusiastic supporter of it and one who embraced it and has worked hard to, along with a lot of other people, see that it came to pass.

These two other advantages are: first, we realized that we could stop trying to create this connectivity ourselves by buying hardware and software, and instead begin to buy the connectivity the way we buy electricity as, in effect, a utility. We could contract with a private contractor, and we put this out for competitive bidding, and we will announce today the selection of one amongst the four major bidders who came in.

We realized that by turning it over to the private contractor, we could refresh that technology readily, because we could insist on performance guarantees from the contractor and let him acquire the hardware and the software and the like. We are not acquiring that, and he will man it, and this in turn not only gives us the opportunity to refresh the technology readily, but frees up many hundreds of civil servants, and, above all, Marines and sailors to do the kinds of things they need to do while we let the fast-evolving commercial community provide us with the undergirding of this net.

And then, most fundamentally, we realize that apart from its virtues of economy and security and reliability, apart from its keeping pace with an extraordinarily evolving technology, there was one transcendent, enormous advantage of this, and that is that we can change the culture of the organization by creating a common information system so that instead of participants individually within different sections of the organization maintaining their own information supply, and when they need something from someone else, ending them an e-mail and asking for it, they could instead directly access it.

In other words, if, for example, you need a part, you have an ability to look throughout the system at where the parts are located and order them, ultimately, by a click on your mouse that gives you the ability to deliver. That's where the network takes us. It takes us to a common system of information.

It means that personnel records, ultimately, will be available to the individuals whose personnel record is engaged and not simply in some central headquarters. It means a breakdown of the sort of psychology of "Mother, may I?" where individuals request things of other individuals and those other individuals take a lot of time to inventory their own information networks and respond according to their own sense of priorities.

This will change the culture of the organization by making it more unified. And in that sense, I'm particularly delighted that this is a Department of the Navy effort. This is a Navy and Marine Corps Intranet. The two services will be intimately linked in ways they are not now in their undergirded information system.

So when you put it all together, I think we have enormous economic rewards. We have great security awards -- rewards. We wind up having a system that's more reliable. We wind up having enormous benefits, in terms of keeping pace with the civilian technology and having this performed as a utility by the people who can best perform it. And best of all, by uniting our information systems, we create a united Department of the Navy that will be better able to perform its missions in the world at large.

In this context, I think it's very appropriate to hear from the commandant, General Jones, about his perspectives with respect to that, and then from the CNO, Admiral Clark. And then we'd be delighted to take your questions.

Jim?

Jones: I think the secretary has covered it very, very well and completely.

My own view, I would just simply add that we're excited at achieving this connectivity with the -- with the Navy. This is something that both the CNO and I are very committed to in terms of, not only on the information technology basis, but throughout the operations of the Navy and the Marine Corps from the highest levels of leadership on down. We're looking for different ways to bring the two organizations closer together.

And this is certainly one of those tools that are going to achieve this.

I also think that the comment that the secretary made about keeping abreast of technology with this method of acquiring this system is absolutely correct. I think, if we try to do this ourselves, we would wind up losing pace with technology. By the time we fielded it, the new technologies would be here, and we would not be able to keep abreast of it.

So, from the Marine Corps' perspective, our 68,000 stations, which will be linked intrinsically with the Navy, and also, beyond that, other departments in the Department of Defense as well for the first time I think in history, is also a very powerful argument for moving ahead with this.

So we're extremely pleased that we're going to be full participants in this and that it will make the strong links between the Navy and the Marine Corps even more robust and more compelling in the future.

Vern?

Clark: Thank you, Jim and Mr. Secretary.

I think that I would start by saying that the Navy-Marine Corps Intranet was an idea that these two gentlemen had and my predecessor had, to reach for -- to reach for this kind of capability. And Jay Johnson, along with Jim Jones and the secretary, started us down this path.

At the time, some of you know and some of you do not, that I was the commander of the Atlantic Fleet. In the course of my experience there and the course of my experience here as the CNO, I am more convinced than ever before of our need for this kind of capability.

I see NMCI as the gateway to transformation for us. In every area where I -- and Secretary Danzig made the point about the cultural transformations that are going to result from this. On the waterfront, where our fleets are, this is going to significantly improve their capability. That's all -- that nice, you know, that's fine. But that isn't -- that isn't where this is really going to take us.

Where this is going to take us is that, because we will now be able to eliminate stovepipes that exist across the investment that the secretary has already described, that we are spending significant resources today, as we have modernized our ability to deal with information, NMCI is going to break down barriers that exist between pockets of information that will enable us to, in fact, revolutionize the way we do many things in the United States Navy.

I think specifically about logistics, the tools of logistics. Over the course of my career, I've seen wonderful additions to the management of information in the logistical area. What I have not seen is our ability to tie this information together, so that we can realize and achieve the true efficiencies that would be available if we weren't replicating databases and if we weren't replicating stovepipes of information across the Navy.

What will happen with NMCI, is that this will not only give us increased capability, but it will lead us to the kind of systems -- and I'm talking about management systems that we need in the 21st century to truly transform the way we do business and the way we expend resources and the way we track the key elements of readiness inside the United States Navy.

So this is a banner -- a banner event for us. And the uniformed men and women of the United States Navy are looking forward to it for the reasons that the secretary has identified and the things that Jim Jones has talked about here. In the end, I truly believe that the product that we see in the future, and the transformation in processes, and the way we manage information, and the effect that it has our resource streams, will truly be dramatic.

Danzig: Just add two thoughts: one is, it is remarkable how fast and effectively this idea has come forward and been developed. One of the comments sometimes made about the Department of Defense is that it's a five- to 10-year process at a minimum to make a major new acquisition to initiate a new system. We have taken this idea from its conception, 18 months ago, through an RFP this last Christmas, to implementation now. And that's something we're very proud of. It also is something that's very reflective of just the terrific support from Secretary de Leon and Secretary Money, and I think incredible good work from people within the Navy.

The other part of this that I'd emphasize is, this is in some respects the beginning of a journey, not the end of it. We are, in effect, paving the roads, laying down the railroad tracks for our information systems to move for new applications to be adopted. There's a lot of work still to be done, but today is the major milestone and we wanted to celebrate it and share it with you.

We'd be delighted to take your questions.

Yes?

Q: Mr. Secretary, how are you going to pay for this? And also, how does it make your information systems more secure? You said, make them less vulnerable to hacking and so forth. How does that -- why is that true?

Danzig: Well, with respect to how we'll pay for it, our observation was that throughout the system of the Department of the Navy, in both the Navy and Marine Corps, we had already very large expenditures.

The Navy and Marine Corps are highly technological organizations. We're also highly dispersed organizations, operating all around the world.

And our calculation was that we are now spending, historically, some $1.6 billion. So we have a great opportunity in converting to a more effective and more efficient system. Then we can take the savings from this more effective system and put them into the information applications and expansion of our operations. We'll expand the number of people who are trained, the number of computers, the amount of connectivity, et cetera, under this system, and we'll do it within our existing cost base.

Then with respect to the security aspects, you can get more detail in a moment from the expert panel, but the bottom line is that we can both acquire more sophisticated systems of encryption and the like, because we have the financial savings. It's one of the things we will allocate the savings to.

And further, by having a centralized system administrator and a boundary around this, a firewall around the outside, we have the capability to monitor entry into and out of the system, and monitor activity on the system in ways that should increase the security.

There are some physical security aspects as well that can be commented on later.

So that's where we are, Bob.

Q: Can you clarify what held up the announcement until today? It was meant to have been -- the contract was meant to have begun on October 1.

Danzig: Right. It's wonderful how we always move to new standards. I'm so proud we did this in 18 months, and you're asking why did we hold up these six days at the end?

But it's a fair question. And the answer is that we needed, on any system of this character, to make sure that we had genuine congressional support and approval. The authorization committee has been working over these last weeks to complete its bill, and we didn't want to go ahead and announce this, even though arguably legally we could, we didn't want to go ahead and announcement this until the authorization committee had spoken in support of it. And that is what the authorization bill that is enrolled today does.

Q: There was some kind of a snafu, the Navy said, over depots and other industrial-based aspects of the question. Can you start by -- (crosstalk)

Danzig: Snafu is a good Navy word, but I'm not sure it applies here.

The question was: at what speed would various organizations be integrated into this net? And we laid out a transition program which essentially Congress adopted.

Amongst other things, it called for not introducing the ship maintenance activities until a year from now and phasing them in.

Congress said also that their desire would be for us not to integrate the air depots in this first year. We agreed with that. They have written that into the law. Working that out was one of the things that needed to be done.

But these last six days wasn't so much working out any particular issue; it was simply making sure that we didn't proceed we truly had

authorization.

Q: Mr. Secretary, are you going to have Congress for the money every year or are you just going to reprogram money? How is this -- literally, where is the money -- (crosstalk)

Danzig: Well, what we've done, and Art Money was central in this, is to identify the sources of funding to Congress. We sent a report this last June 30 to Congress speaking to these issues, show them where the money was being drawn from. And Congress itself will monitor these expenditures.

I would not envision that they will need to approve it line by line, but, as in all things, the Congress is the source of all authority in this republic and certainly the source of all spending, and therefore, realistically, this will be overseen by Congress and they will, on a year-to-year basis, you know, look at it and make judgments about it and police it in the same way that all our programs are policed.

Q: But it's not going to be a line item in the -- (crosstalk)

Danzig: I do not envision it as a line item. Should Congress want to make it one, then they can. But that's not the way I envision it.

Yes?

Q: Can you talk about what -- how you personally will define success? I know you have service-level agreements in the contract. How do you define success?

Danzig: Sure. Well, the CNO and the commandant may also want to speak to this.

My own feeling about it is, I define success along each of the five parameters I mentioned:

Does it turn out that we're getting more for our money from this? I think the answer to that will be vibrantly yes, but it's a fair thing that should be looked at. Originally, GAO and OMB had questions about this. They came to conclude we will get substantially more for our money. But that's a very relevant test.

Will the system be more secure? Do we do a good job of managing security? Will it be more effective? How much is the down time? We can measure our down time now in both nanoseconds and seconds for our connectivity. We have large periods of time in which people want to get online within our networks and transmit information from our West Coast facilities to our East Coast facilities, and they're not able to do it because of network congestion and things like that. I'll measure it in part by whether our efficiency and our effectiveness improves.

I'll also measure it by the refresh rate. We have new technologies, asynchronous transfer modes, for example, where we're reliant on the new technology. The new technology offers us opportunities for bundling information, speeding transmission, getting video and not simply data,

being able to teleconference together and work from common text. Those will have big payoffs in terms of our logistic systems and our war-fighting.

Do we realize them from this system? I think all of us are confident we will, but that's the right measure.

And fifth and finally, most subtle and difficult to measure, but I'll come back to my opening comments, from my end by far most rewarding is: are we changing the culture of the organization? Think about what it means to be a relatively junior person and now have complete access to the information you need. You're going to get more decentralized decision-making. Think about what it means to be a senior decision-maker and now have a common information system that displays information and gives you much more real time connectivity to your forces. Your ability to intervene will be greater. So the rewards can be very high.

Let me just ask, I don't know, if either CNO or commandant want to add. I don't mean to be preemptive here.

Clark: Well, first and foremost, I'm going to see a tremendous improve -- and there's no question about it to me -- we will see a tremendous improvement in capability.

Specifically, on the pointy end for us, with fleet units, I move to the secretary's priority item number five, or criteria number five. I will gauge it by the changes that I see in our ability to more effectively deal with the issues that we face across the Navy. And I'm talking about readiness, I'm talking about manning, I'm talking about retention, and all the things that are at the top of my priority list. I fully expect this capability to change the way we do business.

For example, an individual is now seeking a set of orders. Today, he's deployed someplace in the far corners of the Earth, and he seeks to get a telephone line or he sends an e-mail and there's time-light kind of things. This is going to change the nature of the interface with the people who determine this person's future. And I expect it to then affect the whole process, the way this encounter takes place.

So we will have very rapid things that we see in terms of immediate capability. We will have things that occur over the course of time.

I must say one other thing, Secretary, if I -- Mr. Secretary. In the course of a four-year tour that I'm just starting, if I went out and somehow got the budget structured in a way so I could refresh everybody in the Navy this year, in '01, by the time I finished with that task, I would be looking at the challenge of where new requirements were, I would be looking at the challenge of how I'm going to deal with this in the next pass, what the procurement agent might -- you know, who it might be and how I make this happen across the whole landscape of the Navy.

The beauty of this is that this is going to -- the refresh rates that are in this program are going to give us a continuing capability steam, and that is going to be a tremendous plus for our Navy.

Q: The conference report forbids you from putting money on contract until you go through certain hurdles. Can you walk us through what those hurdles are and what difficulties you're going to encounter before you actually can sign the contract?

Danzig: Having already taken Jim's observation about a six-day delay, I can tell you that I think our delay in contracting will be about six hours, probably a little less.

The various -- indeed, a very large number -- Mr. Money referred to this earlier in his comments -- a very large number of things had to be agreed to and sign-offs had to be had. We've gotten all of those.

The Office of the Secretary of Defense is very supportive of this. We've found our sources of financing; we've displayed them to the Office of Management and Budget and to Congress; we have a letter from the appropriators endorsing our going ahead. We've done all these things.

The authorization language that you're referring to asks for a last thing, which is a certification from the CNO and myself that we have read the comments from OMB and from the office of program and analysis -- analysis and evaluation in OSD, and that those are -- we understand that and think that it is appropriate to be proceeding with the Intranet.

And my expectation is that we will provide those certifications as soon as this afternoon.

Q: I'd ask you to fill the blanks in this question: the winning contractor did blankety-blankety-blank over its competitors. Why did the winning contractor win?

Danzig: I can't fill in the blanks on that because the winning contractor can't be articulated now. The contract office needs to do work on that.

And frankly, as secretary of the Navy, I'm not involved in selection of one rather than another. But I think to the extent that interests you, you can get further information from Joe Cipriano, the program executive officer, after 5 today. OK.

Yes?

Q: Sir, can you kind of walk us through what comes next -- (Crosstalk)

Danzig: I'm sorry, Tony, to make you so late on Friday, but...

Q: Can you kind of walk us through what comes next and what the milestones are for implementation?

Danzig: Yes. I think you'll get the best report on that from the panel that's coming on right afterwards. So I'll leave that to them.

I would just indicate, you'll see a quarter-by-quarter unfolding of this. And for me, as a manager, the major milestones will be every three months over this time ahead.

Yes?

Q: I had something of a cold start on this, so if I could cover a couple of the basics. First of all, I assume that this will incorporate your classified systems as well as unclassified systems; is that correct?

Danzig: Yes. We're getting that, right.

Q: And there's no outside classified system, this will take in everything?

Danzig: Yes. Essentially.

Q: Is that correct?

Danzig: Yes.

Q: And what is the total value? I've heard a lot of different numbers: $16 billion over seven years, $10 billion over five years, $1.2 billion a year. Can you straighten me out on that?

Danzig: I think the $1.2 billion a year gives you a rough, sort of, steady-state rule of thumb. The reason you're hearing complexity is because the system grows over the years if it operates as we intend it to. And over -- you can measure it over different years. The contract will be for five years with three option years afterwards.

But measuring in five-year terms, which is the standard Defense Department unit of measurement here, I think of this as a $1.2 billion a year for five year level of effort. That gives you a rough...

Q: And then there is a renewal option, three years, tagged on the end; is that correct?

Danzig: And there's also a termination option en route. And for those of you who are acquisition junkies, I think you'll enjoy looking at the RFP and the arrangements. But that's the basic architecture of it.

Q: But, basically, $6 billion over five years is the opening shot?

Danzig: Right. And I'd emphasize that this is the biggest information contract that we know that's been awarded anywhere, not surprising, given the complexity and the character of this activity. But it's certainly one of the biggest of acquisition contracts. But it isn't its size that makes it remarkable; I think it's obvious utility and it's potential dramatically transformative effect and the dimensions, as we've talked about it.

Q: Do you know where these other numbers come from?

Danzig: This has got to be your last one.

Q: Where the $16 billion figure comes from over the life of the project?

Danzig: Probably from other people in the room, but --

Q: Actually, that's true, but none of them sitting.

Danzig: I think at various times, before we've had the bids in, there have been various estimates and I think that accounts for something.

You had a question?

Q: Yes. Specifically to the Marine Corps, have the funding issues been I guess hashed out and what are they, exactly?

Jones: Well, as you know, the Marine Corps has been operating its own system for a number of years, and we don't get phased into this program until '03.

The level of effort resource-wise for the Marine Corps this year, for our own system, was $45 million to modernize, and that essentially is the price tag for our buying into the system as well. [Clarification: the cost for Marine Corps IT this year is $190 million.]

My only reservation -- not reservation, but the only discussions we had on this was that we didn't think that the money should come out of either modernization or readiness accounts, and I've been very pleased with the secretary's support in that context, that that's not going to happen.

So we're essentially taking what would normally would have spent to upgrade and maintain our own systems, and at the appropriate time plug into the new system, which is going to be much more powerful and much more cohesive than what we've been operating in our own little microcosm.

Q: Mr. Secretary, do I understand correctly...

Danzig: I'm sorry, let me just hold you a second for somebody who hasn't had a question.

Yes?

Q: Is this an example of bundling of contracts that will hurt the small subcontractors around the country who've been doing the pieces of this all along?

Danzig: That's a good question. We were concerned about that, and there were issues raised by some of the small business committees on the Hill about that. We resolved those issues by emphasizing the role of small businesses. The contract as awarded provides that the winning bidder will need to subcontract some 35 percent of the effort to small business contractors, and that gives them, actually, a more robust access to business than they would have had otherwise and I think makes us all quite, quite happy.

Q: Is this contract going to displace any naval personnel?

Danzig: Any which personnel?

Q: Any naval personnel currently working on IT systems?

Danzig: Just so you all hear the question, the question is: is this contract going to displace any naval personnel?

As with all movement forward, it changes some jobs and job situations, and it will create situations where we'll be taking jobs and moving the responsibility to the private sector.

We're dealing here with information professionals, and from our standpoint, it makes it easy to turn around and offer people job security. These are our scarcest resource, our demand for them exceeds our supply. So we are quite eagerly saying to people, "If you want to follow the job to the private sector, that opportunity is available for you. If you want to stay within the Department of the Navy, that opportunity is also available to you."

And I think we will make that work, because these jobs -- these programs, by the way, are not very manpower intensive. We're talking about people in the hundreds.

I might mention, coming back to the question that you asked, Gail, about the Marine Corps, one of the things that we were impressed by is that there are a substantial number of Marines in the, sort of, 600 to 1,000 range who are now working on information systems as Marines where those functions could be performed by civilians.

One of the questions we had to come to grips with was, that is a wonderful thing. We now have freed up 600 to 1,000 Marines. But naturally from the commandant's standpoint, one question is going to be: what happened to those Marines and do we lose them? And if it means reducing the size of the Marine Corps, we wouldn't want to do it. And that was one of the things we went through.

We realized then that we could allocate monies from the savings of the contract to enable us to employ those Marines in more classically

Marine-like function and in other information kinds of activities we've got, and that in fact we could thereby sustain the corps.

But it was the right kind of question that the commandant was raising. The CNO raised similar kinds of issues.

I don't want to make this appear to be easy. It took us a long while to figure this out and debate it -- a long while in terms of its intensity and a lot of time invested. And I'm very proud that as an organization we all came together behind this. This could not have been created by any one of us. The people who have the technology skills, who you'll hear from in just a moment, are absolutely central to this, and they're the ones who developed the idea and they're the ones who made it work.

There are countless managers of financial systems, of military personnel, of our political relationships with Congress, of our operations in the day-to-day way in the field, who had to come together and sign up to it, the fleet commanders, the administrators of the financial systems, et cetera, the CNO, the commandant and me. And if we didn't all figure out how to talk to one another about this and find the common good, we couldn't have made it. That we did that at all is something that I'm very proud of. And that we did it in 18 months is something I'm phenomenally proud of.

Having said that, we'll give you the last word. And then we should bring on the...

Q: Do I understand correctly that in addition to the contract itself, there's going to be a second contract to a second company to, sort of, stand by in reserve, a smaller contract? And, if so, how much is that going to be?

Danzig: Well, Joe can speak to this, but amongst other things, we want to give ourselves a measure of assurance that one of the failing bidders might be available if, improbably, the winning bidder didn't perform to our standards.

And that isn't so much because I think that's a likelihood, as that we'd like to be careful about how we manage our resources and make sure we continue to have some ability to say to the winner, "You know, you really need to measure up to your promises here." We're just not neglecting all the alternative competition. Competition isn't over. There are potential entrants here.

Having said that, I think I should...

Q: How much will that contract be worth?

Danzig: You can talk to Joe Cipriano in just a moment.

I'd like to yield the stage -- unless, Commandant or CNO, you want to -- to Joe Cipriano who's the program executive officer that has just done a phenomenal job. I'm so admiring of Joe and the many hundreds of people who worked for him on this -- and to Dan Porter, our chief information officer, who's so fundamental to having built the consensus and the process that we've described. These two know about a thousand times more about this than anybody else in the room. And I'm sure they'll be delighted to answer your questions. Thank you very

much. Thank you for your interest.

Q: Wait a minute. You left one thing hanging that's not clear to me...

Danzig: Only one?

Q: Well, at least one. I think you said that, quote, "It's the biggest information contract that we know of that's been awarded anywhere." Was that at the five year, $1.2 billion a year level that you're referring to?

Danzig: Either way. Just as a contract commitment, which we've now committed for five years. That's the sense in which I mean it.

Thank you very much. Thank you for your interest.

Cipriano: Well, good afternoon. Mr. Porter and I are here to answer any additional questions you might have, to the extent we can.

Some of them, we may have to wait until after 5:00, if they involve specific information, like the one you asked about how much would such an option cost if we were to exercise it. We have an option in the contract to buy -- to have a second contracting team monitor the progress of the first one, that we could exercise if our concern about performance gets to the level that that becomes necessary. And we have a price for that that is embedded and built into that, but I can't tell you what it is.

Q: Is that contract going to be -- let's just say, if company A gets the NMCI contract, is company B today going to get a contract for $20 million to...

Cipriano: No. We will just make one award.

Q: And when will that -- how will that work, though? I don't quite understand.

Cipriano: We have an option from -- the people who bid on this contract gave us a price for performing that function that we can exercise over a period of time or not. And we will make a decision on whether to do that or not, based on evidence that we have.

Q: Will company B be named as well?

Cipriano: No.

Q: Mr. Cipriano, combining the value, the $16 billion figure came from 10 potential for the five years, and then two years -- the six-year option, two years each. Can you bound what the value of the option might be now, just kind of a rough order of magnitude?

Cipriano: The value of the option on an annual basis is somewhat less than the five year base contract, because we've amortized the majority of the capital investment. And so the pricing all comes down, for all the bidders, some amount between 10 and 20 percent. And so the second three-year chunk will be somewhat less per year than the first.

Q: $1.5 billion?

Cipriano: About a billion a year.

Q: About a billion, OK. So that's about $9 billion total...

Cipriano: Correct.

Q: Interoperability, is this going to push the Army and Air Force and allies to keep up with the Navy, or...

Cipriano: We've taken some steps to maintain interoperability with the Army and the Air Force. For one thing, we'll be communicating through the DISN to the Defense network to the other services as our primary long-haul carrier. Also, there are a number of Navy and joint communications systems that have been specified in the contract, where the contractor is required to maintain interoperability with those. Those were provided to us by OSD.

And so for those specific set of systems, there is a test of interoperability, and there is a general requirement that interoperability has to be maintained with the Defense network, which will provide connectivity to the other services.

Q: Are you all transferring ownership of your existing systems to the contractor this year, to help bring down the price in the first year?

Cipriano: What we did is we allowed the contractors, as part of their proposal, to go out and view our existing infrastructure. They have provided us a credit for that infrastructure. So as we order seats or segments, the amount of that infrastructure that is necessary to support the implementation of that segment will become available to them. And the credit that we accrue as a result of the value of our existing infrastructure is reflected in a reduced price to the Navy.

Q: Can you give a few more examples of real-world ways that this will make life easier? Somebody mentioned something about somebody out in the field being able to search more locations for a part that they need. Can you give some more, so the ordinary person would appreciate what this does?

Porter: Well, we wrote a -- in fact, we tried to take on the task of writing stories to try to describe how some things might work. And we had stories that talk about how we live and how we work and how we fight. An example of how we fight, for example, is -- one of the stories that we examined was a Marine in a peacekeeping sort of a scenario who is carrying a biological agent detection device who registers a positive.

And right now, the way that would work, he would be, obviously, effectively trained in how he would react, but if you could then imagine how everybody else who knows something about biological agents was available to him from a distance, so that he could communicate with CDC; he could communicate with Fort Meade; he could communicate with all of the other Marines in the field. And so that you could -- all of that could be orchestrated for them to give him the most effective decision and the most efficient action on his part.

And again, there are a number of stories that would then go in to say how one might use this from a maintenance point of view, how might one use it from an acquisition and an engineering point of view, a contracting point of view.

In effect, you know, IT has been the sector that is in fact modifying and changing and transforming all the other sectors inside of this country. And that's exactly how we see this Intranet operating for us.

Q: Does the contract that you'll award tonight at 5:00 ensure that the contractor who gets NMCI must build to meet the standards of the global information grid that DOD will establish? Is that written into the language?

Cipriano: It is written into the contract.

Q: How many desktops are involved, and how many networks will be integrated into the new NMCI?

Cipriano: If we look at the number of orders that we have received from the different Navy and Marine Corps commands, the total is over 350,000 different desktops that would ultimately be involved as the network is fully implemented. And I think we've estimated that about -- depends on what you call a network -- that about 200 significant networks will be integrated into this single one over a period of time.

Q: How many seats will be integrated in the first year before the strategic pause? And second question, back in March, when you first briefed us, you talked about the award feed pool was about $150 million a year for the winning contractor. Can you clear that up, and is this -- this is a fixed-price contract, is it not?

Cipriano: That's correct.

OK, the number of seats that are involved in the initial segment will be around 40,000 seats, very little bit up and down as the final orders are finalized after the claimants have had an opportunity to look at the details of the contract.

We have a large incentive in this contract for customer satisfaction, because one of the complaints you get whenever you try to do something centrally is that you lose contact with the end-user, and the end-user feels like they have a loss of control. And so we wanted to build into this contract vehicle an opportunity for the end-user to be able to influence what the contractor paid attention to.

And we did that by putting a substantial customer satisfaction incentive in the contract, where every single user, through answering customer

satisfaction surveys, will determine how much of that that contractor earns. And it could be as much as $400 a seat. And so, if he earns the maximum amount -- and in order to do that, he would have to delight everyone with his service above the levels that are normally achieved in commercial practice -- then it can up to $150 million a year.

We also have incentives for security and incentives related to small business participation and an incentive for him to get the initial operational capability.

Q: Are those all included in that $150 million?

Cipriano: No, they are separate incentives. The incentives for security, we have, for the first time, attempted to put numeric measures of performance on security. And we have established a service level for security that has requirements, like time it takes to determine that someone is trying to break in to your network, the time it takes you to respond to that, and what percentage of your network capabilities are impacted by the type of response that you take.

And so we've established some benchmarks for those different requirements: Can you tell somebody is trying to break in? After you figure it out, how long does it take to do something about it? And what's the impact on the users of doing that?

And those will be tested by Navy teams, independent Navy teams, that will validate the contractor is performing in accordance with those requirements as we go through. And we've tied incentives in the contract -- cash incentives -- to how well he performs in those tests, and also to improvement over time. And those can be earned every quarter over the life of the contract.

Q: Can you give a sense of how much? You said there's like $8 million back in March...

Cipriano: It's about that, in order of $8, $10 million a year I believe is the...

Q: A year.

Cipriano: Yes.

Q: What regulations are there going to be to keep -- to govern who the contractors can hire to work on these contracts? I mean, because wouldn't that be a simple way for a foreign power to try to spy?

Cipriano: The same regulations that govern a civil servant today or contractor today are imposed on this contract. And so anyone that has access to classified information or to networks that carry accessed information will have to have appropriate security clearances. It's exactly the same requirements that are imposed on this contract as they are on civil servants.

Q: How much of the work do you think will be done in Texas?

Cipriano: Now, I can't answer that question until after 5:00 either.

Porter: If I could add something about security and where we're going, you know, because this question has come up before -- because we are -- that integral to the defense in-depth strategy that we are employing for security -- we're using encryption technologies -- much of the traffic that goes through a global operation center is 1s and 0s. It's not, you know -- it's encrypted at the time that it's there. So it actually goes -- it gets unencrypted at the desktop, and so it very much passes from individual to individual.

Cipriano: One more thing: the commercial folks, of course, deal with these security issues, because of banks and other things, stock exchanges, that are pretty concerned about similar information. And there have been some techniques that have been developed and demonstrated to be very effective for being able to separate the sense of information from the rest of it and minimize the number of people that have access to that. That will be imposed and those techniques will be employed in this contract.

Q: Can you talk a little bit about one of the questions that was asked earlier, which is milestones. What do you do, say, well, Monday or Tuesday or whenever we're back in, and what happens down the road?

Cipriano: OK. The first -- when we award the contract tonight, we'll be issuing a task for the first -- that will order the first group of seats. And that group of seats, like I said, will be about 40,000 seats, which will include folks that are working in the naval aviation community of interest, primarily those group of seats. The contractor will then begin interfacing with the people that will be transitioning to NMCI initially.

The steps that are taken is that he typically goes in and takes over the existing networks first, and then he transitions them to the NMCI environment. We expect that transition to take about three months. And so in January sometime, we would expect him to have transitioned that initial segment to the NMCI environment.

We then have a strategic pause built in where, over the next two or three months, we will be testing the network and validating that the concept is sound and that the network is performing as we expect it to.

We will certify again at that point that our objectives have been met, in terms of cost, in terms of performance, in terms of security, interoperability, et cetera. And after that certification is complete, then we'll order the next segment, the next batch, the next community of interest, probably sometime in April or May.

Q: So the strategic pause comes...

Porter: January to about -- from January for about three months.

Q: Who's next after NAVAIR?

Cipriano: I think the naval sea community is the next big chunk of folks in that community of interest.

Q: How could the value of this contract go above $9 billion? The secretary seemed to refer to the possibility that the thing could be larger and that there were certain unknowns about the way...

Cipriano: We have fixed prices for line items in the contract, and we have guarantees against some of those contracts. And so the numbers that we have been talking about have been related to the items against which we have guaranteed orders. We had to guarantee a number of orders so that the contractor knew how to spread the capital, to amortize it over the length of the contract.

There are a number of items in the contract for which there are no guarantees. For instance, voice, there's no guarantee for us to order any voice services under this contract. Now, the price for voice services might be very attractive, and so it may be less expensive than we're paying today, and we may choose to order voice services under this contract. If we did that, that number could very easily exceed the number that we've talked about thus far.

Porter: Yes. There's another service that's available of server re-hosting of a number of applications that would be available to some of the local folks as well.

Q: I'm sorry, say that again?

Porter: Applications that are currently hosted on a server that might not be -- that would be separate from the network, could be re-hosted onto a larger server, so-called server farm, that's on the network.

Cipriano: And the pricing for that is fixed as well. And so, if you have an application and you don't want to mess with having to maintain the server it runs on, you just want to be responsible for the code, you can pay the NMCI contractor to host that for you. There's a price that's then determined and locked in based on the bandwidth consumed by the application.

Q: But when you say that voice services are not guaranteed, that you haven't ordered any voice services as part of this contract being announced tonight, how does that square with the earlier indications, including in your proceedings article, that this is to be a "secure network that links all short commands and provides voice, video and data services," unquote.

Cipriano: We expect that to be the outcome. However, when you're looking at some things like voice services, there are fixed costs associated with those voice services that don't go away until everybody transitions. And so it makes sense to wait until after the network is in place across the Navy and Marine Corps, and then do a transition to voice as a group from a cost-effective sense. And so it might be year three or four into the contract by the time it is cost- effective to do that group transition.

Q: But you fully expect it to be more than...

Cipriano: Expect it.

Q: You expect the voice component to be there. That's a teleconferencing capability.

Cipriano: The capability is required in the network, and we expect to order it, yes, at some point.

Q: And that would boost the price above the $9 billion that...

Cipriano: But it's not just teleconferencing. It would be all of your voice services provided on the network as well. Your telephone as well as teleconferencing.

Porter: I think we have somebody back here that hasn't asked a question.

Q: Sorry I'm making you repeat yourself. I didn't hear what you said. When are you going to decide when contractor B will come in, if they will come in, to review the work of the first? You said that you'll have the option of a separate contractor.

Cipriano: We have that option, and we have no plans to exercise that option today. And unless we have information that causes us to change our mind, it isn't our plan to do so.

Q: I just have a question about the order in which you decided to do this, as far as, it's beginning with NAVAIR and then you said to NAVSEA. Can you just explain and clarify why it's NAVAIR?

Cipriano: The question was, why didn't we go with the aviation community first? They asked to go first is the answer.

And the reason they asked to go first is because they were in a situation where they had a number of large IT contracts that were coming up for renewal and the phasing worked out well for them. And so that was a good time for them to transition to NMCI, rather than have to go through a bunch of competitions to replace existing contracts, and so they asked that they go first.

Likewise, they had some applications. Particularly, they were using an enterprise resource planning set of software that is enterprise software that would be most advantageously employed using an Internet kind of capability.

Q: Have you all given any thought to change management strategies. I know a large part of the success of any management-type contract depends on user support and acceptance. How are you all dealing with that?

Cipriano: You know, that's a great question. One of the things -- in fact, we very much focused I guess in this meeting on what we're doing with the network and the infrastructure.

We have also had a number of initiatives ongoing relative to content, to applications, to convergence of applications, sets of meetings and working groups, basically trying to work that strategy through.

One of the things, in fact, we've demonstrated, I guess, at both NAVAIR and a number of different commands, is a portal strategy. So, in fact, there will be a single face to every individual who first gets on the network, always comes to the same place no matter where he is on the planet.

Q: So does that make NAVAIR almost a pilot project?

Cipriano: It does.

Q: The way I'm figuring it, in the first five years, you're talking $2 billion savings, a possible $2 billion savings over the first five years of the contract. Am I way off?

Cipriano: You're subtracting $1.2 from the $1.4?

Q: $1.6, $1.4.

Cipriano: Yes.

Q: OK. Thank you.

Q: What other major components might be added besides the voice that you -- that are not guaranteed.

Cipriano: I think the rest of -- that is probably the largest single one. You can -- there are a number of upgrades people can order, in terms of capability upgrades or mission-critical upgrades. There is -- data warehousing can be ordered, for instance. You can...

Q: What does that mean, warehousing, in this context?

Cipriano: That you could pay someone to store data for you; in other words, provide the facilities necessary to store data that would be accessed under the contract.

You can order cell phones under the contract, any communication device, for instance. It's not guaranteed, but, again, if the price is good, it might be a good thing to do -- PDA device, personal data assistants. And anything that you order under the contract is interoperable with everything else. And so one of the advantages of doing it under the contract is that it automatically works with everything else.

Q: And how much could that all be worth, if all of those options were exercised, voice, cell phones, data warehousing, PDAs? Can you -- could that possibly add billions of dollars to the value of the contract?

Cipriano: To be honest with you, we haven't asked or gathered that information yet from our users, and so I can't really give you a good answer to that at this point.

Q: Can you walk through the architecture, how this thing is going to connect with ships at sea? I don't want to walk out of here writing that ships at sea are going to be able to access this thing and it's not -- they're not going to be able to. What I'm concerned how this interacts -- was it IT-21?

Porter: IT-21, right.

Cipriano: First, we have been upgrading the networks on our ships at sea to be able to handle this information input for over the last number of years, and our last battle groups will have been completed here within the next year. And so they've got robust networks on the ships.

When the ships are in port, they can plug in to NMCI. The NMCI goes right to the end of the pier. And they can plug in and they will have the same connectivity on the ship and the same access to information as everyone else does.

When they're at sea, NMCI goes to the teleport, from the teleport to the satellite, and then down to the ship. And so they will have the same access to information. They will have restrictions, of course, more limited restrictions on bandwidth because of the satellite bandwidths, but all the same information is available to them when they are at sea.

Q: What would be using the global broadcasting system?

Admiral Mayo, did you want to comment on which satellites we'd be using?

Q: The military satellite systems, the defense satellite communications system, the EHF -- (crosstalk)

Mayo: This is a very important aspect of Navy-Marine Corps Intranet, the connection of our afloat networks with the NMCI CONUS that you've heard described here today. Very important aspect, Admiral Clark alluded to it, you know, the operational aspect of what we're going to benefit from.

The connection will be made with existing military satellite systems, the Defense Satellite Communications System, the Milstar communication system, the UHF communication system, -- follow-on. But in addition, and one way that we've extended the IT-21 networks to our ships at sea is via commercial satellite communications systems, our Challenge Athena program via INTELSAT and the services that we use with the INMARSAT satellite communications system.

So we've tried to provide our ships at sea more satellite bandwidth. Still, that bandwidth is not going to be the same as what our NMCI users get ashore. So that bridge between ashore and afloat is going to have to be carefully observed, monitored, facilitated, so that the sailors on the ships at sea can access any of the information that the Department of the Navy has.

Q: This is over the next couple of years, you'll see this? Or is this just a little ways down the road?

Mayo: We're going to start in fiscal year '01. As we start to bring the users on to the Navy-Marine Corps Intranet, we're going to be making sure that that seamlessly interacts with the IT-21 networks. As Joe Cipriano said, they come together at our network operating centers -- fleet network operating centers today. And that's where that interface will be. And we're going to have close, you know, a lot of close scrutiny on that.

Cipriano: And, likewise, with IT-21 on the ships, there is a parallel strategy that ties into the Marine Corps tactical network as well.

Thank you.

Staff: We don't have any more questions, one last question?

Thank you very much.

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